pensions & investments

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UAW, Treasury plot Chrysler loan?

DETROIT—The United Auto Workers (UAW) and the Treasury Department have been discussing, apparently without Chrysler Corp.'s knowledge, the use of the company's UAW pension plan assets to rescue the financially-troubled company.

UAW officials confirmed that union president Douglas Fraser had met last week with Roger C. Altman, an assistant Treasury Secretary and had agreed that money could be lent to Chrysler from the $800 million pension fund.

Mr. Fraser said after the meeting that the union would have no problem lending money from the pension fund providing there were absolute guarantees that pension payments to retirees would not be put in jeopardy.

However, according to a Chrysler Corp. official, no one has talked to the company about using the pension fund assets.

"The first I knew about it was when I saw it in the newspapers over the weekend," said another Chrysler executive involved in the pension fund administration.

A company spokesman said corporation executives were curious as to who made the suggestion to use the pension assets, and they believe it might have been the government since only it could grant the exemptions required before the funds could be used to back a loan.

The spokesman added that the corporation would not take it upon itself to use the pension fund in such a way because it would be illegal under the law.

The willingness of the UAW to go along with lending pension assets to Chrysler is an apparent turnaround from an earlier position.

Last month Mr. Fraser had told *Pensions & Investments* that he opposed using Chrysler pension assets to help the company out of its financial difficulties.

He said at that time that he doubted such a move would be legal under ERISA and instead proposed a Federal program.

A UAW spokesman last week said the loan would be possible if two key conditions were met: An "absolute guarantee" that all pension payments for current and past retirees were paid, and that all pertinent legal exemptions were granted.

The spokesman said the Chrysler employes also would have to be consulted on

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Wages, benefits, pensions are interwoven

Taft-Hartley funds coming of age

By Charles Epstein

CHICAGO—Labor and management negotiators faced each other across many long tables in 1979 to reach agreement on contracts representing about 3.7 million workers.

Agreements covering workers in petroleum refining, trucking, rubber, electrical machinery, auto and farm machinery manufacturing, education and symphony orchestras all had to be renewed before the strike deadline was reached. In some cases they weren't. In all cases pension benefits were discussed.

This may be because the American labor movement has reached the point where the bulk of its membership has money in its pockets, tolerable working conditions, recognition for their union and fringe benefits.

This same membership is also getting old. In many cases they are looking at their pensions for the first time in hard terms. Retirement is no longer a fringe benefit; it will soon be a way of life.

The UAW has over 330,000 retirees; the International Brotherhood of Electrical Workers, 60,000; the Machinists, 14,000; the United Mine Workers, 85,000.

These are the same workers who saw the unions through the difficult times of organizing, strikes and gaining national recognition. They are the ideological descendants of a cigar maker and his wife who in 1890 earned 13¢ per hour, working 17 hours a day to support themselves and two children.

But as the labor movement grew and coalesced, the employers also came to recognize their power. Both sides battled and quickly saw the benefits of reaching an accommodation. An agreement meant both sides could work together, plan for the future and enjoy the benefits of their labor.

These jointly administered plans are at that point today. The top 25 Taft-Hartley funds in the nation have accumulated pension assets exceeding $11 billion. U.S. Bureau of Labor Statistics show 9.6 million workers are in major collective bargaining units, or about 20% of the U.S. workforce.

In many cases the weekly contributions now exceed the size of the funds just 15 years ago. For instance, the Teamsters Central States Fund, as a result of the new National Master Freight Agreement, receives weekly cash contributions of about $11.5 million.

While the multiemployer plans continue to attract greater attention from their own participants, they have also drawn the attention of the pension industry. Actuaries, consultants, investment managers, third party administrators and educational foundations now specialize in this area.

It also has attracted more scrutiny from the government and policy makers espousing special causes.

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Top 10 Taft-Hartley union funds/sponsors (as of June 30, 1979)

Rank	Fund/sponsor	Assets ($ millions)
1	Western Conf. of Teamsters	$2,470
2	Teamsters Central States	2,310
3	United Mine Workers	725
4	Intl. Brotherhood of Electrical Workers	680
5	Intl. Brotherhood of Boilermakers	582
6	Bakery & Confectionary Workers	500
7	Intl. Operating Engineers	390
8	Electrical Industry Joint Board	360
9	So. California Retail Clerks	307
10	Carpenters of Northern California	280
		Total: $8,604

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Skepticism greets IBM debt issue

NEW YORK—Despite the "glamour" of owning IBM's first debt ever, institutional buyers are expressing skepticism over the terms of the deal—and they are wary about supply in the market and the direction of long term interest rates.

They suggest that IBM's $1 billion debt financing could be the tip of a corporate financing iceberg.

"I think the IBM deal tells you something about liquidity in corporate America," observed Steve Smith, senior investment officer at First Pennsylvania Bank, Philadelphia.

"Corporations are paying 13½% and higher in the short term markets. We could see this short term financing rolling out into the long term market.

He also noted that commercial paper (short term corporate unsecured debt) outstanding is now at the $105 billion mark, 50% over the last peak in commercial paper debt in 1974.

Dean Meiling, vp at Pacific Investment Management Corp., Newport Beach, Ca., also expressed concern over the supply of debt in the long term markets."

"There's been a trend toward greater supply—IBM is only one part of that," he said. "Corporations may be reassessing their outlooks for interest rates—they may shift from the short-term to the long-term markets."

Aside from wariness about supply of long term bonds and the level of interest rates, buyers are reserved about the terms of the IBM issue.

The $1 billion issue, which is manager by Salomon Brothers and co-managed by Merrill Lynch, consists of $500 million seven-year notes and $500 million 25-year bonds. Both are rated triple A by both Moody's and Standard & Poor's.

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Inside

Wisconsin study may impact $4 billion

3 A study completed in Wisconsin suggests that increasing public fund investment in Wisconsin-based business and industry may reduce risks for public employe pension participants by lowering the chance of economic hardship in the region's economy. With $4 billion in public funds domiciled in the Dairy State, the 400-page study could impact more than butter and cheese. The study was initiated almost two years ago and it was one of the first to analyze the actual possible consequences of socially oriented investing.

American flying 'four quadrant'

14 We're American Airlines . . . doing what we do best," the ad jingle goes. Ask one of the company's money managers what American does well and he's likely to note how the airline's financial executives monitor the managers of its $1.2 billion in pension assets using 'four quadrant analysis.'

Social investing could be hazardous

33 Shell-shocked by the Sobering Seventies, fund managers now find themselves broadsided by proposals to restrict investment opportunities under the guise of "socially acceptable" investing. Two contributors to the Features section offer some thoughts and a case history on why social investing could be hazardous to a fund's health.

Citibank turns under new captain

36 Improving the investment performance at a big city bank has been likened to turning the QE 2 around in the Mississippi River. But Peter Vermilye, who took on such an assignment with New York's Citibank 18 months ago may have succeeded where others have failed.

Are new firms a trend?—page 31

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The Taft-Hartley Story

1947

1979

Multiemployer plans face liability problem

By Clare Minick

NEW YORK—Unfunded vested liabilities are a problem facing all pension plan sponsors. However, corporations who participate in multiemployer plans also have the added responsibility of dealing with the uncertainties proposed by the Pension Benefit Guaranty Corp.'s (PBGC) withdrawal and liability provisions.

And some corporations contend the PBGC's new provision could explode the measure of corporate liability for these plans.

The question of how corporations with participation in multiemployer plans monitor the plans is so sensitive that many corporations simply will not discuss the issue. They do not want to jeopardize labor relations when it comes time to haggle at the bargaining table.

Some corporations ignore the plans and do not know what shape they are in or the extent of their liability if the plans should fold.

"We contribute to a lot of multiemployer plans," said one New York-based sponsor who asked not be identified. "We really don't monitor them closely—they're not well controlled at all."

A consultant who does administrative work for multiemployer plans stated the situation this way: "The labor negotiator within a company is happy as long as the contributions to a plan remain fixed. There's a tacit assumption that the liabilities are fixed.

"ERISA says these are defined benefit plans which means the liabilities are very real. And there's another catch—the unions could decide a level of benefits which may not fit the level of contributions. Obviously, this means that there is a bill coming due . . ."

Another corporate sponsor based in the Midwest said: "Management's attitude is: 'Look, we just negotiate our side of the contract.' The multiemployer plans are at arm's length; we have no control."

Companies involved with multiemployer plans include some of the largest, most visible corporate enterprises. They typically have their own pension plans. But, in addition, through subsidiary operations, they are major participants in multiemployer plans.

A representative from a major corporation that participates in 10 multiemployer plans said that he pushed management for an audit of the plans two years ago.

"We had no idea of what shape the plans were in," he admitted.

Though he estimated that 98% of multiemployer plan are in excellent shape "you have to watch out for the 2%. They can cost the company a lot of money."

His company found that one of the multiemployer plans fell in the 2% category. On the basis of the audit, the company is considering selling—or dissolving—the company's subsidiary because of the growing unfunded vested liabilities in the plan. The company looked at its assets versus the vested pension liabilities and concluded the situation is hopeless.

Not all multiemployer plans are in actuarial unsound condition. But there are plans in declining or dying industries which can cause

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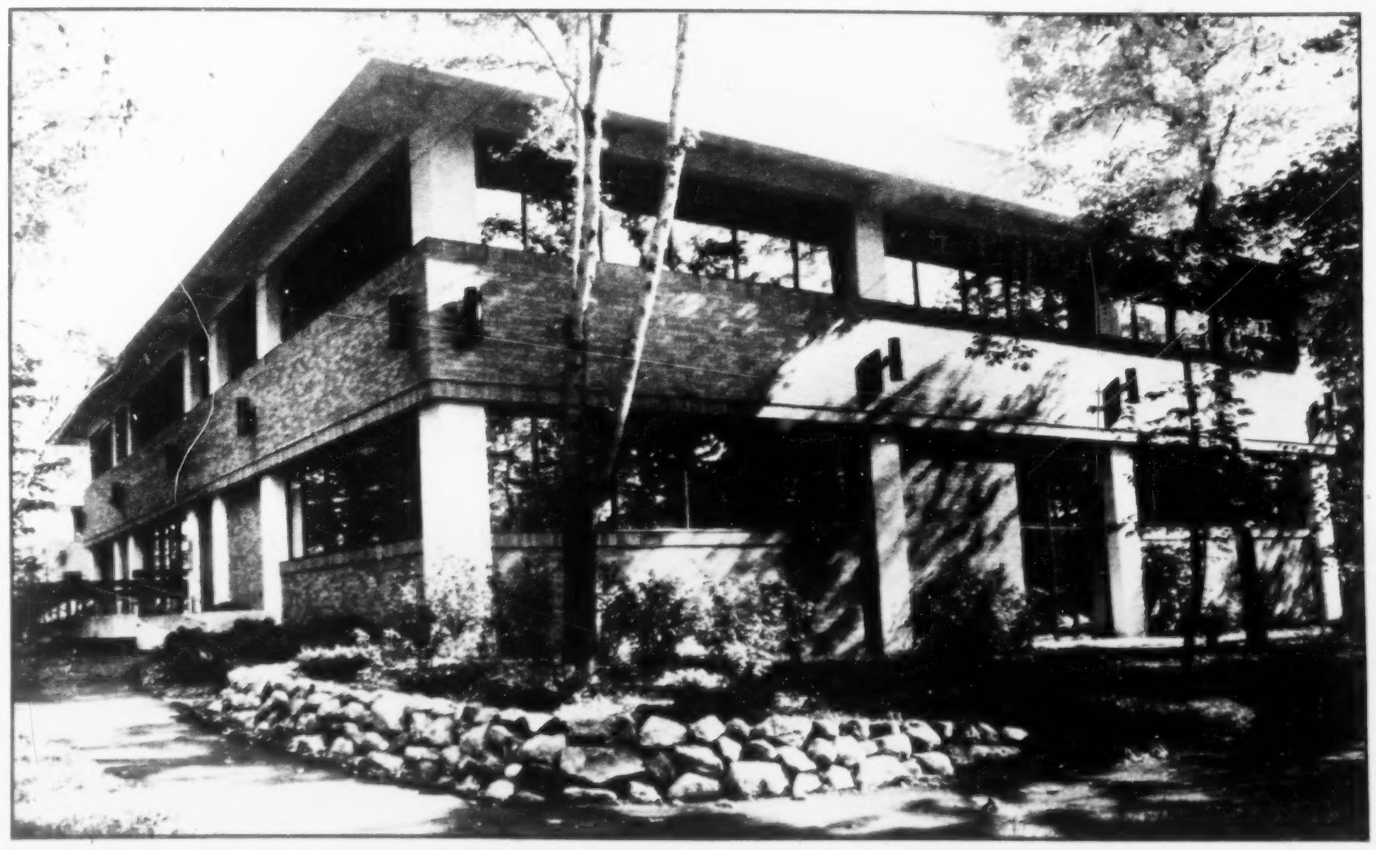


From a conference table in Akron to stately offices in Brookfield.

Celebrates 25th anniversary

IFEBP is 'vital' resource

By Gwen Nobbe-Asher

BROOKFIELD, Wi.—The foundation gospel according to Lee Polachek states that the most important thing the International Foundation of Employee Benefit Plans (IFEBP) has accomplished the past quarter century is the opening of rational dialogue between union and management.

And, since Lee Polachek has been with the organization virtually all of those 25 years, he ought to know what it's major accomplishments are.

A soft-spoken man who would seem to be as much at home in a classroom as in his beautifully appointed offices in Brookfield, Mr. Polachek said at one time the only place union and management representatives spoke to each other was around a negotiating table. And, generally those were not the friendliest of sessions.

"Union and management have been viewed as enemies for so long that even the dissemination of unbiased information was almost impossible in any area. The foundation has provided that forum—a place where the two can sit as equals trying to solve their employee benefit plan problems," Mr. Polachek said.

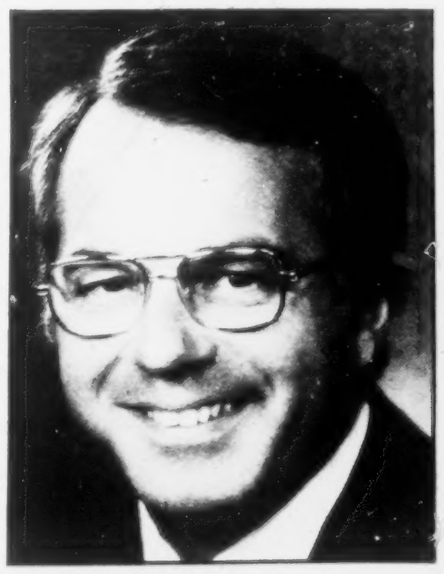
"The annual conferences and other seminars offered by the foundation throughout the years have helped dissipate that combative atmosphere. And, frankly I do not think any one other group could have achieved that except the foundation because of our stance as an educator," he said.

Although Mr. Polachek obviously is convinced the foundation has served well as a peacemaker, he also is quick to point out the importance of the foundation-inspired Certified Employee Benefit Specialist (CEBS) program. That program was designed by the foundation and is administered under the auspices of the Wharton School of the University of Pennsylvania.

"We at the foundation were stunned by the tremendous reception the CEBS program has gotten from the employe benefit industry," Mr. Polachek said.

"We anticipated there would be 200 persons interested in the program—yet at the end of the first year we had 2,000 and now at the end of the third year there are about 6,000 persons participating in the program.

"The program exceeded our wildest goal and we are really looking forward to the graduation of our first candidates at the 1980 annual conference in Hawaii," Mr. Polachek said.



Polachek

Obviously the foundation has made great strides over the last decade by increasing its membership several-fold, offering scores of new programs and educational seminars and the completion of new office facilities in Brookfield. But, what is ahead for the next decade?

"We plan to become more involved in the corporate pension benefit area. I think we have been identified as an organization for multiemployer plans for so long that corporate America does not re-

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Pension benefits discussion topic. . .

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These funds are also more stable than the non-negotiated plans. According to the Pension Benefit Guaranty Corp. (PBGC), only about 5% of the single employer plans which terminated were negotiated through collective bargaining or were named in the collective bargaining agreement.

"The frequency with which participants in negotiated plans experienced potential loss of pension coverage or loss of benefits was thus considerably less than that experienced by participants in non-negotiated plans," according to a 1977 PBGC report.

In more real terms, this meant two out of 1,000 members of a negotiated plan pension were left without pension benefits in 1977. This compares to nine out of 1,000 in the non-negotiated plans.

While the reason for this added stability may be traced to larger employers with more financial strength, it is also attributed to the elements of the Taft-Hartley act itself.

The basis of the multi-employer plan is the collectively-bargained contract itself. This document stipulates conditions of the union-employer agreement and it then falls upon the trustees to oversee the administration of the plan.

Boards of trustees range from four to more than 60 in the case of the National Electrical Contractors Assn./IBEW. And, in all cases the trustees are asked to do the unthinkable, that is, forget their personal biases and act for the sole benefit of the plan participants. In many cases this seems to work; in some it doesn't.

According to Department of Labor records, 19 cases were filed against plans in 1979, all of which involved a breech of fiduciary responsibilities. However, the PBGC lists 2,000 multi-employer plans covering 8 million workers and retirees as paying premiums in 1978.

At the individual fund level, trustee relationships are essentially a matter of personal chemistry which often reflects the particular relationship of the industry being represented.

In the building trades, for instance, the traditionally close relationship between the employer and the tradesman has soothed many rifts before they became strikes. "We can prove our points. We don't have to fight it," according to Ed Brabec, business manager of Plumbers Local Union 130, Chicago.

Mr. Brabec also praised the fund's 5 employer trustees on the 10-man board "who have been very good throughout the years." The 29-year-old fund now has assets of $36 million.

Advances in the quality of union trustees was also noted by Robert Vaughan, administrator of the Chicago Painters and Decorators Pension Fund. "The unsophisticated union executive doesn't exist anymore," he stated.

"Questions are being asked now that I believe were not asked 10 years ago," he added. "Trustees today are not just accepting things now as they did before."

Now the trustees work with lawyers, actuaries, investment managers and accountants and "want them to be accountable in laymen's terms and not the stock market jargon."

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Taft-Hartley funds . . .

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"The trustees have one basic question they ask investment managers: 'If I gave you $1 million one year ago, how much is it worth today and how much did it cost?' " Mr. Vaughan said.

A number of financial managers also commented on the changes they have seen within the past ten years in pension fund trustees.

Vince Teti, of Weiss Peck & Greer, New York, said "There is no question the trustees are asking better questions because they're dealing with consultants and actuaries. And as everyone gets older they become a little more familiar with the issues at hand."

One counselor in Phoenix, who has been managing Taft-Hartley funds for 12 years, said he has seen "a dramatic increase in the level of sophistication of pension fund trustees."

William Miller, vp and manager of Lionel Edie's Phoenix office, attributed the advances in trustee education to the IF's seminar programs and ERISA's stress on fiduciary responsibility.

Fiduciary responsibility was dramatized during the down equity markets in 1974-75, Mr. Miller continued, and now many trustees are more conservative.

Mr. Miller said many of his clients, who are in the crafts and building trades, have been in the mortgage market since 1974.

"The trustees have found them to be quite satisfactory and some of the funds have gone past the mortgage stage into participation agreements such as sale leasebacks," Mr. Miller said.

"We've found the basic mortgage can compete directly with GICs and often can maintain higher yields."

While there are many similarities between corporate, municipal and Taft-Hartley pension fund management, a key difference occurs in a strike situation.

Here, many funds strive to maintain equities with high liquidity and cash reserves to maintain their pension payouts. For instance, the UMW fund keeps a minimum of six months of payables in cash equivalents on hand for their 1974 Fund. This amounts to about $35 million, according to fund treasurer Bonnie Cohen.

During the UMW's 14 week strike in 1977-78 the fund missed two months of benefit payments totalling $40 million. When the new contract was signed the fund took out a bank loan to pay the two back and the current payments, Ms. Cohen said.

While that situation may be unique, the possibility of a strike enters into a fund's investment philosophy.

Kennedy & Assoc., a Seattle investment manager which specializes in multi-employer accounts, maintains a highly liquid equity portfolio as part of its investment policy.

Another area which has entangled the Taft-Hartley funds is the government. Often the funds receive more than their share of publicity, as noted by Robert Vaughan, a third party administrator employed by MICA Inc., Chicago.

"When the government comes in it's like gangbusters," he said. "But when the investigation is over, the DOL just issues a statement saying 'The investigation is over'—not that there is no cause for the investigation or the fund's records are exemplary, just nothing."

Other trustees and fund administrators noted the double standard which is often applied to publicizing union fund abuses in front-page headlines versus those of corporate pension plans which usually are restricted to less sensational stories on the business pages. ■

Committees . . .

Continued from previous page

This participant portion also could be made mandatory, Mr. Sacher said.

He also said that distinguishing pre-ERISA liabilities from post-ERISA liabilities should be explored, "but with recognition that doing so will not lessen the overall financing burden because virtually all present unfunded plan liabilities are due to pre-ERISA service."

Ken Bernstein, an aide on the Ways and Means Oversight Subcommittee, said that committee is also concerned about the guarantee levels, but probably will concentrate most of its efforts on the problems concerning withdrawal liability.

One specific problem he is concerned with is the rules for allocating the unfunded liabilities would make a new employer "think twice" about joining a multiemployer plan. "The ability to attract new employers is the lifeblood of a multiemployer plan," he said.

He said the five-year rolling average method the PBGC has devised to figure the cost for withdrawing employers may be "the simplest administratively." But he said whether there are "less onerous methods is a real issue."

Mr. Bernstein said he was also disturbed that PBGC left the controversial issue of partial withdrawals to be dealt with by regulations in the future.

The House Pension Task Force is also spending much of its time trying to come up with different formulas for assessing withdrawal liability. ■

Economist says 1979 recession hasn't hit yet, possibly in 1980

NEW YORK—Contrary to popular opinion, the recession hasn't started, and won't hit the U.S. until Spring of 1980, according to Lawrence Kudlow, chief economist at Bear, Stearn & Co. Inc.

Mr. Kudlow offered his opposing views at a press briefing here sponsored by the investment banking and brokerage firm, where he explained that "the efforts of the Fed to peg interest rates this spring have produced a major bulge in money and credit aggregates, and this bulge is likely to postpone the long awaited recession for a few more quarters."

Mr. Kudlow further explained that "the availability of money and credit remains plentiful and although the inflation-induced tax-brake effect is now retarding production, total spending and nominal GNP are expected to advance the level of economic activity through the first quarter of 1980, imparting a slightly positive influence to real GNP during the interval."

The rise in interest rate targets, Mr. Kudlow noted, signifies "a catch-up effort to stabilize the value of the dollar, and despite these efforts, the dollar continues to display weakness against the somewhat harder currencies of England, West Germany and Switzerland."

Mr. Kudlow further pointed out that, in his opinion, the downward slope in real output in the second quarter of 1979 was due to temporary factors, such as two national strikes, an energy price shock, and an unexpected shortfall in gasoline supplies. ■

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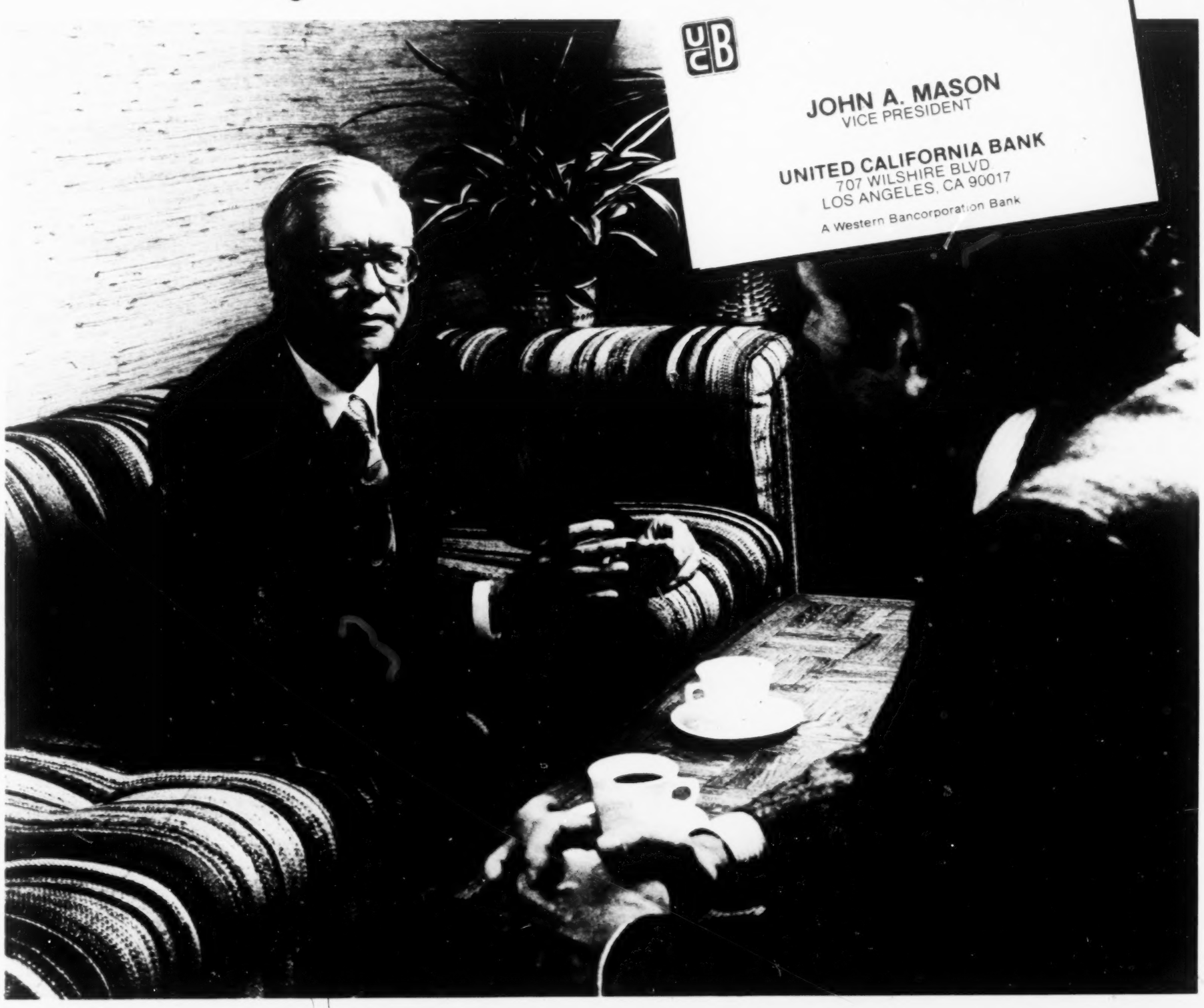
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